BACKGROUND REGARDING DETROIT'S RETIREE HEALTHCARE OBLIGATIONS

The City provides to its retirees, and their spouses and dependents, health insurance (including dental and vision benefits) and retiree death benefits – these are known in the Plan as **"OPEB"** (Other Post-Employment Benefits). The healthcare, dental and vision benefits are completely unfunded. This means the City has not set aside money to pay these benefits. In the case of death benefits, the City provides a lump sum benefit upon the death of an employee and certain retirees who make voluntary contributions to fund this benefit. The City has established a trust account into which contributions made by retirees, employees and the City have been deposited. This account has enough money to provide approximately 96% of the expected death benefits. Therefore, this account is underfunded.

Historically, the City has paid the cost of annual retiree health, dental and vision insurance benefits or stipends on a "pay-as-you-go" basis from its General Fund. The cost to provide retiree health, dental and vision insurance to retirees during the course of their retirement and the underfunding associated with the death benefit trust account are also debts of the City. Those debts also create a claim in the bankruptcy. This is called the **"OPEB Claim"** in the Plan. The City proposes to turn over the responsibility of providing OPEB benefits to new entities in the Plan and to contribute to those new entities only a fixed sum for future retiree health, dental and vision benefits rather than the full cost of those benefits.

If, as of March 1, 2014, you were a retiree, or surviving beneficiary of a retiree, and you are receiving, or entitled to receive, health insurance (including dental and vision benefits) and/or you are covered by the death benefit program so that your survivors are eligible for death benefits from the City, you have an OPEB Claim in the bankruptcy. **Active employees do not have an OPEB Claim.** As a holder of an OPEB Claim as of March 1, 2014, you have a right to vote on how the City proposes to reduce and restructure your retiree health and retiree death benefits and the other terms of the Plan.

BACKGROUND REGARDING DETROIT'S PLAN FOR THE ADJUSTMENT OF ITS DEBTS

The Plan and Disclosure Statement

On May 5, 2014, the City of Detroit filed the Plan. The Plan is a legal document that contains the terms of the City's proposed restructuring. Among other things, the Plan proposes to restructure OPEB benefits.

Along with the Plan, the City also filed a document called the "Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit." That document is referred to as the **"Disclosure Statement."** The Disclosure Statement provides more detailed information on various aspects of the proposed Plan and the City's bankruptcy case including, among other things:

- the circumstances leading up to the City filing for bankruptcy;
- key events during the bankruptcy case;
- a description of how the Plan will restructure the City's debts for different types of creditors, including retirees and active or former City employees, by reducing or changing the amounts it will pay and the timing and terms of repayment;
- how the City proposes to implement the Plan;
- the legal effects of approval of the Plan by the Bankruptcy Court;
- instructions regarding voting on the Plan; and
- risk factors associated with the Plan.

Classification of OPEB Claims in the Plan

Under the Plan, claims against the City are divided into different classes. Claims related to retiree healthcare and death benefits – OPEB Claims – are in Class 12.

OPEB (Retiree Health (Including Vision and Dental) and Death Benefits)

If you are a retiree or a surviving beneficiary and are receiving retiree health benefits, or are entitled to retiree death benefits from the City, you are a holder of what the Plan calls an "OPEB Claim," and it is included in Class 12 of the Plan. As a holder of an OPEB Claim, you are entitled to vote on the Plan. The City generally requires that, to be eligible for retiree health benefits, a retiree must be receiving monthly pension payments from GRS or PFRS. Therefore, most people who hold an OPEB Claim also hold either a GRS pension claim in Class 11 or a PFRS pension claim in Class 10.

The estimated amount of all OPEB Claims for purposes of voting on the Plan is $4,095,000,000. This amount represents the estimated present value of the cost of the City's future obligations, as of June 30, 2013, for the City to continue to provide retiree health benefits (including dental and vision) and death benefits into the future under the programs that were in effect at the time the City filed its chapter 9 petition. If you are the holder of an OPEB Claim, the estimated value of your OPEB Claim is equal to your share of this $4,095,000,000 and is stated on the Ballot that you received with this Notice. Your share is calculated based in part on your age and life expectancy, and also on the projected cost of future health care. The claim amount stated on your Ballot is the estimated amount of your OPEB Claim **only for purposes of voting** on the Plan. It is not the value of your OPEB benefits, and it is not a promise by the City to pay that amount under the Plan.

If you have both a Pension Claim and an OPEB Claim, you will get a separate Ballot for each claim. You will also get a different Notice in addition to this Notice.

The Solicitation Package and Voting

On May 5, 2014, the Bankruptcy Court authorized the City to distribute the Plan and Disclosure Statement to its creditors and to solicit their votes to accept or reject the Plan. The Bankruptcy Court also authorized the City to send a paper copy of this Notice to you and others who receive pensions or retiree health or death benefits. This Notice and the other documents are intended to provide you with information on how the terms of the Plan will affect your benefits in the future. The accompanying Ballot is intended to allow you to cast your vote to accept or reject the Plan.

Your vote for or against the Plan will be counted and reported to the Bankruptcy Court and included in (i) the total number of votes cast for or against the Plan in your class and (ii) the total amount of claims voting either for or against the Plan. **Your vote matters. You cannot avoid a modification in your OPEB benefits by refusing to vote.**

If you would like to receive a paper copy of the Plan and the Disclosure Statement, you may obtain one, free of charge, by:

- calling the City's toll-free restructuring hotline at (877) 298-6236;
- visiting the City's restructuring website at *www.kccllc.net/detroit*; or
- writing to the City's claims and noticing agent at the following address:

City of Detroit c/o Kurtzman Carson Consultants LLC
2335 Alaska Avenue
El Segundo, CA 90245

The package containing this Notice should also contain the following materials:

1. A cover letter describing: (a) the materials you received along with this Notice; (b) the contents of the enclosed CD-ROM and instructions with respect to its use; and (c) information about how to obtain, at no charge, paper copies of any materials provided on the CD-ROM.

2. A paper copy of the notice of the hearing before the Bankruptcy Court to consider whether to confirm – i.e., approve – the City's Plan (the "**Confirmation Hearing Notice**").

3. A CD-ROM containing the Plan and Disclosure Statement and exhibits to them that have been filed as of the date of this mailing (all of which are also available at no charge via the internet at *http://www.kccllc.net/detroit*).

4. A letter from the City recommending that you vote to accept the Plan.

5. A letter from the Retired Detroit Police and Fire Fighters Association and possibly other parties.

6. A Ballot for your OPEB Claim with instructions on how to complete the Ballot and a Ballot return envelope. Your Ballot also contains information necessary for you to either accept or reject the Plan and its proposed treatment of your OPEB Claim in Class 12.

Please read the instructions, and complete and return the Ballot early enough so that it will be <u>actually received</u> by the Balloting Agent in California by no later than July 11, 2014. Note that it may take several days from the date on which you mail your Ballot for the Ballot to reach the Balloting Agent in California. Ballots that are faxed or emailed will not be accepted.

HOW THE PLAN TO ADJUST DETROIT'S DEBTS AFFECTS YOUR FUTURE OPEB (RETIREE HEALTH, DENTAL, VISION & DEATH BENEFITS)

Under the Plan, the City will no longer sponsor and maintain retiree health or death benefits programs for existing retirees, surviving beneficiaries and their dependents. Instead, the City will establish two voluntary employees' beneficiary association trusts (known as a "**VEBA**") – one for PFRS-related retirees and one for GRS-related retirees. The two VEBAs will be responsible for providing retiree health benefits beginning January 1, 2015 to existing retirees, surviving beneficiaries and their eligible dependents.

Detroit General VEBA for General City Retirees

Under the Plan, the City will establish the Detroit General VEBA to provide health benefits to Detroit's non-police and non-fire retirees, surviving spouses and their eligible dependents. The Detroit General VEBA will be governed by a board of trustees that will be responsible for, among other things, management of property held by the Detroit General VEBA, administration of the Detroit General VEBA and determination of the level of and distribution of benefits to Detroit General VEBA beneficiaries. The board will be comprised of retiree representatives and independent professionals, and the composition of the initial board will be approved by the Bankruptcy Court. The Detroit Retired City Employees Association and the Retiree Committee will each be able to appoint Detroit General VEBA board members in equal numbers, and such appointees will constitute a majority of the Detroit General VEBA board; the City will appoint the remaining members. The board will have the authority to determine who is eligible to receive retiree health benefits from the VEBA, and the annual level, design and cost of such benefits.

Under the Plan, the City will provide the Detroit General VEBA with $218 million in principal amount of a note to be issued to non-pension unsecured creditors. If the City does not make the payments under the note, the persons who operate and manage the Detroit General VEBA will have the right to sue the City for payment. The Detroit General VEBA trustees may also, in their discretion, seek to "sell" or monetize the note in the market to generate more up-front cash for the Detroit General VEBA.

How much the Detroit General VEBA trustees may spend on retiree healthcare in any particular year is unknown at this time. It is also unknown how long the

money in the Detroit General VEBA trust will last because that will depend upon the benefits to be provided. It is likely, however, that the amount of the note to be provided to the Detroit General VEBA by the City under the Plan in satisfaction of the OPEB Claim will not be enough to provide the same level of benefits over the long term as the City began providing to retirees and surviving beneficiaries in March 2014.

Further, the value of the healthcare that may be provided to retirees by the Detroit General VEBA trust or (any other trust that may be created) is subject to various factors, including but not limited to: whether or not a retiree is eligible for Medicare (generally 65 or older) or Medicaid (depending on income level and state residency); costs of future premiums, co-pays and deductibles; whether the Affordable Care Act continues in effect, and if so, in what form; and whether tax credits that currently exist to reduce healthcare costs to low-to-middle income persons continue.

If the Plan is approved by the Bankruptcy Court, regardless of your vote on the Plan, the new Detroit General VEBA board of trustees will make the determination of what level and form of healthcare benefits will be provided to current retirees based on the amount of money available to the Detroit General VEBA trust under the Plan and the exercise of their reasonable discretion.

Detroit Police and Fire VEBA

Under the Plan, the City will establish the Detroit Police and Fire VEBA to provide health benefits to retired employees of the Detroit Police Department and the Detroit Fire Department who not do not participate in (or have the right to participate in) the GRS and their surviving beneficiaries and eligible dependents. The Detroit Police and Fire VEBA will be governed by a board of trustees that will be responsible for, among other things, management of property held by the Detroit Police and Fire VEBA, administration of the Detroit Police and Fire VEBA and determination of the level of and distribution of benefits to Detroit Police and Fire VEBA beneficiaries. The board will be comprised of retiree representatives and independent professionals, and the composition of the initial board will be approved by the Bankruptcy Court. The board members will be appointed by the City, the Retiree Committee and the Retired Detroit Police and Fire Fighters Association. The board will have the authority to determine who is eligible to receive retiree health or other welfare benefits, including death benefits, from the VEBA, and the annual level, design and cost of such benefits.

Under the Plan, the City will provide the Detroit Police and Fire VEBA with $232 million in principal amount of a note to be issued to non-pension unsecured creditors. If the City does not make the payments under the note, the persons who operate and manage the Detroit Police and Fire VEBA will have the right to sue the City for payment. The Detroit Police and Fire VEBA trustees may also, in their discretion, seek to "sell" or monetize the note in the market to generate more up-front cash for the Detroit Police and Fire VEBA.

How much the Detroit Police and Fire VEBA trustees may spend on retiree healthcare benefits in any particular year is unknown at this time. It is also unknown how long the money in the Detroit Police and Fire VEBA trust will last because that will depend upon the benefits to be provided. It is likely, however, that the amount of the note to be provided to the Detroit Police and Fire VEBA by the City under the Plan in satisfaction of the OPEB Claim will not be enough to provide the same level of benefits over the long term as the City began providing to retirees and surviving beneficiaries in March 2014.

Further, the value of the healthcare that may be provided to retirees by the Detroit Police and Fire VEBA trust or (any other trust that may be created) is subject to various factors, including but not limited to: whether or not a retiree is eligible for Medicare (generally 65 or older) or Medicaid (depending on income level and state residency); costs of future premiums, co-pays and deductibles; whether the Affordable Care Act continues in effect, and if so, in what form; and whether tax credits that currently exist to reduce healthcare costs to low-to-middle income persons continue.

If the Plan is approved by the Bankruptcy Court, regardless of your vote on the Plan, the new Detroit Police and Fire VEBA board of trustees will make the determination of what level and form of healthcare benefits will be provided to current retirees based on the amount of money available to the Detroit Police and Fire VEBA trust under the Plan and the exercise of their reasonable discretion.

Death Benefits

The City provides the death benefit program through a separate trust fund. The death benefit trust fund will not be merged into or operated by either the Detroit General VEBA or the Detroit Police and Fire VEBA. Instead, the death benefit trust will be frozen, and the City will no longer have an obligation to continue to fund death benefits under the trust for any participant or beneficiary. The trust will be self-liquidating, and existing retirees who participate in the trust will be granted

a one-time opportunity to receive a lump sum distribution of the present value of their actuarially determined death benefit to the extent of the trust funding. The trustees of the death benefit trust will continue to manage the trust assets and employ the staff of the Retirement Systems to administer the timely disbursement of benefits. The costs of administration will be borne by the assets of the trust.

Active employees as of March 1, 2014 do not have an OPEB Claim. Future OPEB benefits, if any, for active employees will be subject to the terms of future contracts between the City and its active employees.

PLAN RELEASES

If the Plan is confirmed, it will be binding on you. You will have no right to demand that the City pay you the full original amounts it owed for your OPEB benefits. You will only have the right to your modified OPEB benefits under the Plan.

Comprehensive State Release

In addition to protection from further claims against the City that is a standard part of any plan of adjustment, the Plan also proposes to grant to the State of Michigan, its officials and certain other related parties a comprehensive release of any obligation they might have with respect to your pension claim and other claims against the City. Specifically, this release would release all claims and liabilities arising from or related to the City, the chapter 9 case (including the authorization given to file the chapter 9 case), the Plan and exhibits thereto, the Disclosure Statement, PA 436 and its predecessor or replacement statutes, and Article IX, § 24 of the Michigan Constitution. This is called the **"Comprehensive State Release."** The Bankruptcy Court will have to approve this Comprehensive State Release, and it may not do so. If the Comprehensive State Release is approved, **you will not be allowed to sue the State, the City or any State entities to restore OPEB benefit modifications, even if you vote to reject the Plan**.

Release by Claim Holders Accepting the Plan

The Plan also provides for an **"Accepting Holders Release."** The Accepting Holders Release would be granted by individual creditors by their accepting the Plan. This means that if you individually vote to accept the Plan, you will be personally releasing the City and its related entities, the State and its related entities, the Retiree Committee, the members of the Retiree Committee, the Retiree Committee professionals, the foundations and other organizations who are providing Outside Funding and their related entities **except for** such parties' gross negligence or willful misconduct.

In other words, if you vote to accept the Plan, you will not be allowed to sue the State, the City or any State entities to restore OPEB benefit modifications.

For the avoidance of doubt, the Plan does not release, waive or discharge obligations of the City that are established in the Plan or that arise from and after the effective date of the Plan with respect to (i) pensions as modified by the Plan or (ii) labor-related obligations.

DETROIT POLICE LIEUTENANTS AND SERGEANTS ASSOCIATION

28 W. Adams, Suite 700
Detroit, Michigan 48226-1685
Phone: (313) 961-5699
Fax: (313) 961-0923

May 6, 2014

TO DETROIT POLICE LIEUTENANTS AND SEGEANTS WHO ARE HOLDERS OF PENSION CLAIMS IN CLASS 10 UNDER THE FOURTH AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF THE CITY OF DETROIT

Re: DPLSA Support for the Plan of Adjustment

As a holder of a claim against the City of Detroit respecting pension benefits, you have an opportunity to vote on the City's plan to adjust its pension obligations, and the City is soliciting your acceptance of the *Fourth Amended Plan for the Adjustment of Debts of the City of Detroit,* dated May 5, 2014.

Consistent with the May 4, 2014 Term Sheet agreed to by the City and the DPLSA ,as amended on May 5, 2014, this letter serves to indicate the support of the DPLSA for the *Fourth Amended Plan for the Adjustment of Debts of the City of Detroit.*

The DPLSA, with the authority granted by its Board of Directors, supports the POA which contains a new hybrid pension plan for active members and certain reductions to accrued pension benefits. Recognizing that it was able to materially improve the benefit package presented to it at the start of mediation, and in view of the City's current financial condition, the DPLSA has concluded that support for the POA is in the best interests of its membership and necessary to avoid the imposition of lesser benefits and more onerous conditions of employment. The POA provides the best possible recovery for pension and retiree health claimants under the circumstances. A yes vote is necessary to obtain the benefits secured for you under the settlement.

Very truly yours,

DETROIT POLICE LIEUTENANTS AND
SERGEANTS ASSOCIATION

By: Peter P. Sudnick, Esq.
Attorney for and on behalf of the DPLSA

Detroit Police
Command Officers' Association

P.O. Box 02625
Detroit, Michigan 48202

May 6, 2014

To Holders of Class 10 Pension Claims:

The members of the Detroit Police Command Officers' Association (DPCOA) support the Fourth Amended Plan for the Adjustment of Debts of the City of Detroit, believing it to be in their best interest under the circumstances and in the best interest of the holders of Class 10 claims, and urge that you vote in favor of the plan.

Sincerely,

Mary Ellen Gurewitz

Mary Ellen Gurewitz, Esq.
Sachs Waldman, P.C.
Attorneys for DPCOA

Detroit Police
Command Officers' Association

P.O. Box 02625
Detroit, Michigan 48202

May 6, 2014

To Holders of Class 10 Pension Claims:

The members of the Detroit Police Command Officers' Association (DPCOA) support the Fourth Amended Plan for the Adjustment of Debts of the City of Detroit, believing it to be in their best interest under the circumstances and in the best interest of the holders of Class 10 claims, and urge that you vote in favor of the plan.

Sincerely,

Mary Ellen Gurewitz

Mary Ellen Gurewitz, Esq.
Sachs Waldman, P.C.
Attorneys for DPCOA

DETROIT POLICE
LIEUTENANTS AND SERGEANTS
ASSOCIATION

28 W. Adams, Suite 700
Detroit, Michigan 48226-1685
Phone: (313) 961-5699
Fax: (313) 961-0923

Sergeant Mark Young
President

Lieutenant Rodney N. Sizemore
Vice President

Lieutenant Brian E. Harris
Secretary - Treasurer

Sergeant John F. Kennedy
Sergeant-at-Arms

May 6, 2014

TO DETROIT POLICE LIEUTENANTS AND SEGEANTS WHO ARE HOLDERS OF PENSION CLAIMS IN CLASS 10 UNDER THE FOURTH AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF THE CITY OF DETROIT

Re: DPLSA Support for the Plan of Adjustment

As a holder of a claim against the City of Detroit respecting pension benefits, you have an opportunity to vote on the City's plan to adjust its pension obligations, and the City is soliciting your acceptance of the *Fourth Amended Plan for the Adjustment of Debts of the City of Detroit*, dated May 5, 2014.

Consistent with the May 4, 2014 Term Sheet agreed to by the City and the DPLSA ,as amended on May 5, 2014, this letter serves to indicate the support of the DPLSA for the *Fourth Amended Plan for the Adjustment of Debts of the City of Detroit.*

The DPLSA, with the authority granted by its Board of Directors, supports the POA which contains a new hybrid pension plan for active members and certain reductions to accrued pension benefits. Recognizing that it was able to materially improve the benefit package presented to it at the start of mediation, and in view of the City's current financial condition, the DPLSA has concluded that support for the POA is in the best interests of its membership and necessary to avoid the imposition of lesser benefits and more onerous conditions of employment. The POA provides the best possible recovery for pension and retiree health claimants under the circumstances. A yes vote is necessary to obtain the benefits secured for you under the settlement.

Very truly yours,

DETROIT POLICE LIEUTENANTS AND
SERGEANTS ASSOCIATION

By: Peter P. Sudnick, Esq.
Attorney for and/on behalf of the DPLSA

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PRF # 65446
Case No.: 13-53846
Svc: 8

PackID: 3951
NameID: 11897518

JONES, GLORIA
15403 BAYLIS ST
DETROIT, MI 48238-1557

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re	Chapter 9
CITY OF DETROIT, MICHIGAN,	Case No. 13-53846
Debtor.	Hon. Steven W. Rhodes

BALLOT FOR ACCEPTING OR REJECTING THE
PLAN FOR THE ADJUSTMENT OF DEBTS OF THE CITY OF DETROIT

CLASS 10: PFRS Pension Claims – Retirees and DROP Participants
Claimant's **[Name/Identifier]**: JONES, GLORIA / 8964
Allowed Claim for Voting Purposes: $127.144.00

THE "VOTING DEADLINE" TO ACCEPT OR REJECT THE PLAN IS 5:00 P.M., EASTERN TIME, ON JULY 11, 2014

ALL AMOUNTS STATED ON THIS BALLOT ARE ESTIMATES. YOUR FINAL, ACTUAL PENSION AMOUNTS WILL BE DETERMINED BY THE POLICE AND FIRE RETIREMENT SYSTEM AFTER THE CITY'S PLAN IS CONFIRMED. YOUR ACTUAL PENSION AMOUNTS MAY BE MORE OR LESS THAN THE ESTIMATES CONTAINED IN THIS BALLOT.

This Ballot is for RETIREES OR SURVIVING BENEFICIARIES WHO ARE CURRENTLY RECEIVING PENSION PAYMENTS from the Police and Fire Retirement System of the City of Detroit ("PFRS") and for participants ("DROP Participants") in the PFRS deferred retirement option plan ("DROP").

PFRS Pension Claims are included in Class 10 under the *Fourth Amended Plan for the Adjustment of Debts of the City of Detroit (May 5, 2014)* (as it may be amended, supplemented or modified, the "Plan").[1]

Please complete, sign and date the Ballot and mail it by regular mail to Kurtzman Carson Consultants LLC (the "Balloting Agent") in the enclosed addressed envelope so that it is ACTUALLY RECEIVED by the July 11, 2014 Voting Deadline.

DO NOT RETURN THE BALLOT TO THE CITY OF DETROIT, THE BANKRUPTCY COURT OR ANYONE OTHER THAN THE BALLOTING AGENT.

Ballots may not be submitted by fax, email or other electronic means.

1 Capitalized terms used in this Ballot and the attached instructions that are not otherwise defined have the meanings given to them in the Plan.

1353846140506212459006805

Please contact the Balloting Agent if you have questions regarding the ballot return instructions. PLEASE NOTE, HOWEVER, THAT THE BALLOTING AGENT IS NOT PERMITTED TO PROVIDE LEGAL ADVICE.

The City of Detroit, Michigan (the "City") is soliciting votes with respect to the Plan, which is described in the accompanying *Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit (May 5, 2014)* (as it may be amended, supplemented or modified, the "Disclosure Statement"). The Disclosure Statement was approved by the Bankruptcy Court on May 5, 2014. By orders entered on March 11, 2014 and May 5, 2014, the Bankruptcy Court approved procedures regarding the solicitation and tabulation of votes on the Plan.

You are receiving this Ballot because you are a Holder of a PFRS Pension Claim as of March 1, 2014 (the "Pension Record Date").

Your PFRS Pension Claim has been temporarily allowed in the estimated amount of $127,144.00 only for the purpose of voting on the Plan. The actual amount of the claim may change before the end of the bankruptcy case.

The Plan proposes two possible treatments for PFRS Pension Claims, described below as "Alternative A" and "Alternative B." The results of the voting on the Plan will determine whether the PFRS will receive money from proposed settlements with third-party foundation funders, The Detroit Institute of Arts and the State of Michigan (the "Outside Funding"). The Outside Funding also depends, in part, on Bankruptcy Court approval of the settlements and the fulfillment by the outside funders of their respective commitments.

You cannot avoid a reduction of your pension benefits by refusing to vote. If the Plan is confirmed, your pension will be reduced, but only to the extent that the amount of COLA received in the future is reduced.

NOTICE REGARDING EFFECT OF VOTING ON RELEASES OF CLAIMS

If you vote to accept the Plan: You may be giving up any right you may have to sue the State of Michigan, the City or other entities specifically protected by the Plan releases, to try to recover the full amount of your pension, only if the necessary conditions (the "Initial Funding Conditions") for the funding from the State and the other Outside Funding parties that can be satisfied before the Confirmation Hearing are satisfied or waived. These preconditions include adoption of relevant legislation and appropriations by the State and completion of necessary agreements and documents by the State and the other Outside Funding parties, among other things.

If you vote to accept the Plan and the Initial Funding Conditions are not satisfied or waived: Your vote will be deemed a vote to reject the Plan.

If you vote to reject the Plan: If you vote to reject the Plan, it will be less likely that the Outside Funding will be available. Nevertheless, if Classes 10 and 11 vote to accept the Plan so that the State funding will be made despite your vote to reject the Plan, you will not have any right to sue the State of Michigan, State officials, the City or other entities specifically protected by the Plan releases to try to recover the full amount of your pension, but you will benefit if the Outside Funding is received.

ALTERNATIVE A: If both Class 10 (the PFRS Pension Claims) and Class 11 (the GRS Pension Claims) vote to accept the Plan and the Court approves the Plan, the Outside Funding will be contributed to PFRS. Under this alternative, your monthly pension payments will stay the same, except that you will only receive 45% of your cost of living adjustments, sometimes called "escalators" ("COLA"):

> You will continue to receive your current monthly pension payment and it will increase by a COLA escalator (up to 1.0125%) each year.

***

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ALTERNATIVE B: **If either Class 10 or Class 11 votes to reject the Plan and the Court approves the Plan, the Outside Funding will not be contributed to PFRS.** Under this alternative, your monthly pension payments will stay the same, but you will not receive any COLA escalators. Your current monthly pension amount will not be increased in the future.

***

In addition, if you vote to accept the Plan ***and*** the adjusted pension amount you are to receive under the Plan is so low that your total income falls below a certain level, you may be eligible to receive supplemental payments. These additional payments will not be available to higher income retirees.

For more information regarding the calculation of the amount of your allowed claim and your monthly pension payments, please consult with your counsel and/or counsel to the Retiree Committee.

SUBMITTING YOUR BALLOT:

If you were not retired or a surviving beneficiary as of the Pension Record Date, if you did not hold a PFRS Pension Claim as of the Pension Record Date, or if you believe for any other reason that you received the wrong ballot, please contact the Balloting Agent immediately at (877) 298-6236 or via email at detroitinfo@kccllc.com.

To have your vote counted, you must complete, sign and return this Ballot in accordance with the voting information and instructions provided below. You must complete your Ballot and return it to the Balloting Agent so that it is actually received by the Voting Deadline.

The Balloting Agent will not accept Ballots received after the Voting Deadline or Ballots delivered by email, fax or any other electronic method. Ballots should not be sent to the City, the Bankruptcy Court or any entity other than the Balloting Agent.

VOTING INFORMATION AND INSTRUCTIONS FOR COMPLETING THE BALLOT

1. In the boxes provided in Item 1 of the Ballot, please indicate your vote to accept or reject the Plan.

   Your PFRS Pension Claim against the City has been placed in Class 10 under the Plan. **The attached Ballot is designated only for retirees to vote PFRS Pension Claims in Class 10 under the Plan.**

   If you vote to accept the Plan, you are voting to approve certain cancellation, discharge, exculpation, expungement, injunction and release provisions contained in the Plan. Such provisions include, but are not limited to, the provisions contained in Article III.D, Article IV.J, Article IV.K and Article V.C of the Plan. Such provisions include a release of claims against the State of Michigan and may affect your rights and interests regarding certain other nondebtor third parties.

2. Please complete Item 2 of the Ballot.

3. Sign, date and return the Ballot to:

   Detroit Ballot Processing Center
   c/o KCC
   2335 Alaska Avenue
   El Segundo, CA 90245

   The Balloting Agent must actually receive all Ballots by the Voting Deadline. If a Ballot is received after the Voting Deadline, it will not be counted. The Balloting Agent will not accept Ballots received after the Voting Deadline or Ballots delivered by email, fax or any other electronic method. Ballots should not be sent directly to the City, the Bankruptcy Court or any entity other than the Balloting Agent. Any Ballots received by the City or the Bankruptcy Court will not be valid and will not be counted as cast.

4. If you also hold Claims in other Classes, you will receive a separate ballot for each such Claim. You must complete and return each ballot you receive to ensure that your vote will be counted with respect to each Class in which you are a Claim holder.

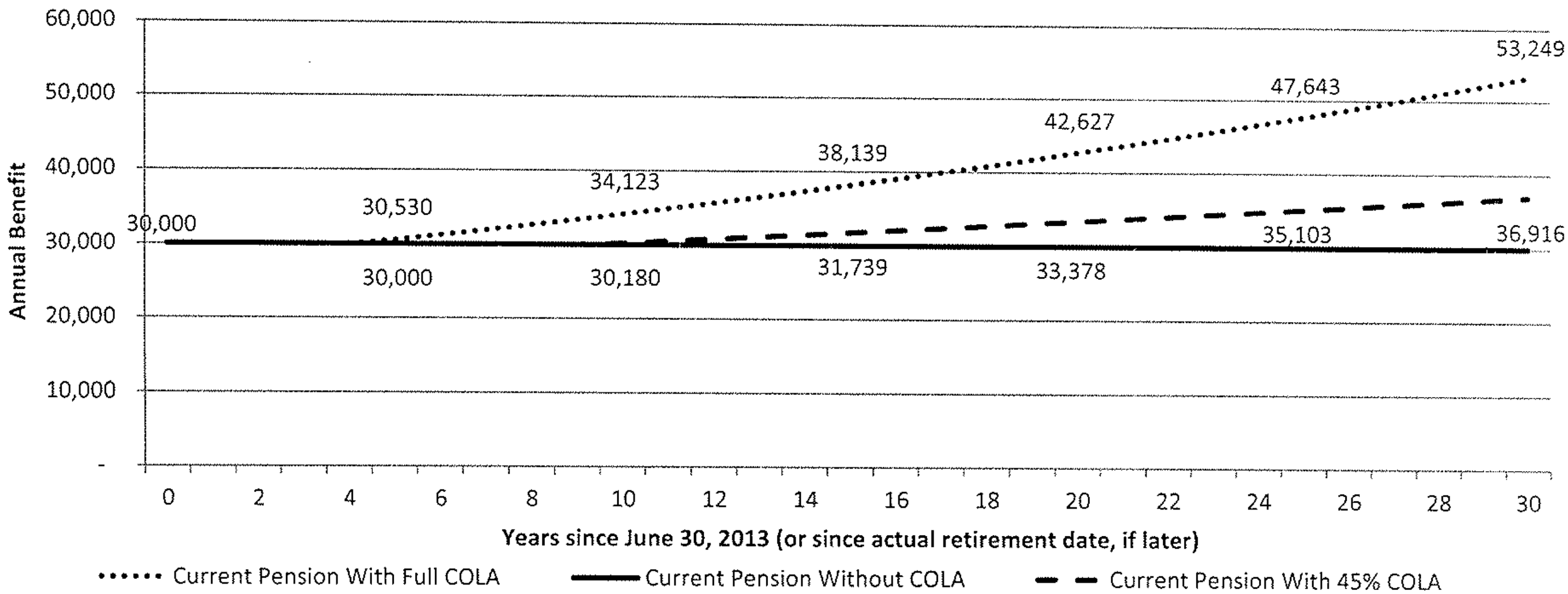
5. The Ballot does not constitute and shall not be deemed an assertion of a Claim.

6. If you were not retired or a surviving beneficiary as of March 1, 2014, if you were not a Holder of a PFRS Pension Claim as of March 1, 2014, or if you believe for any other reason that you received the wrong Ballot, please contact the Balloting Agent immediately at (877) 298-6236 or via email at detroitinfo@kccllc.com.

Annex I

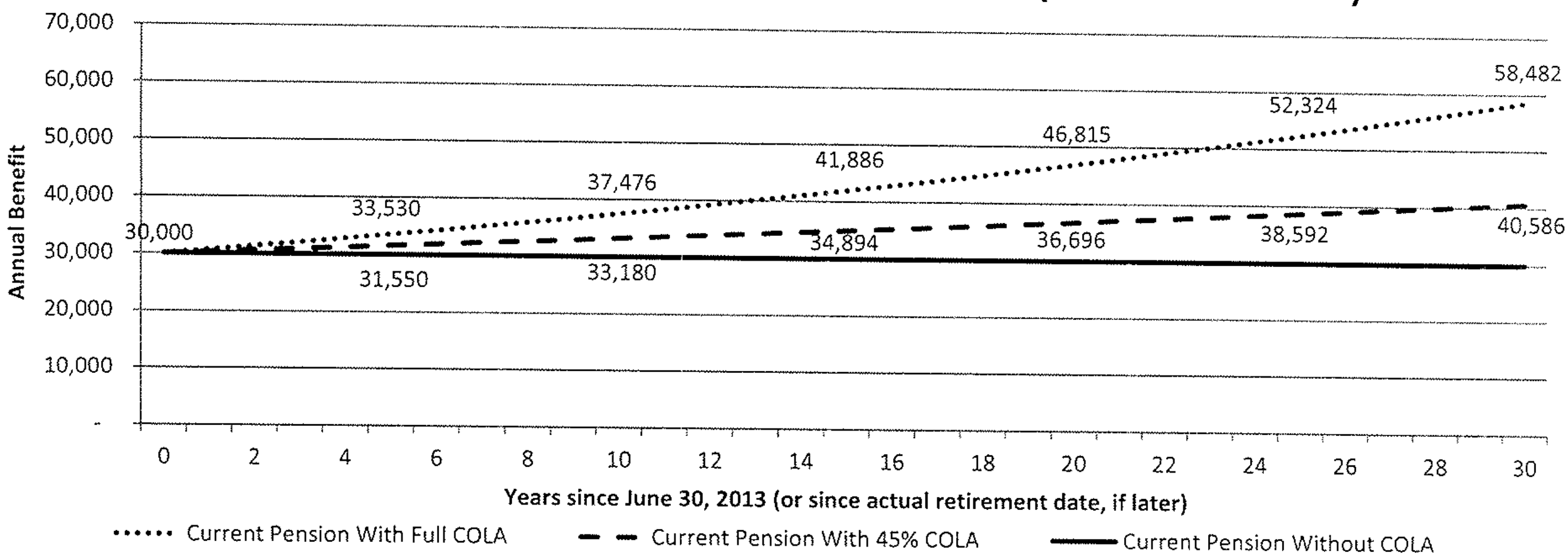
COLA Charts

Police and Fire Retirement System - Old Plan (Hired before 1969)



Amounts shown are illustrations only. The average annual benefit as of June 30, 2013 for all participants in pay status is approximately $30,000. The impact of lost COLA to you personally depends on your actual pension and retirement date, as well as the compensation increases provided to active participants. Further, COLAs are assumed to resume only after past compensation reductions are fully restored.

Police and Fire Retirement System - New Plan (Hired after 1968)



Amounts shown are illustrations only. The average annual benefit as of June 30, 2013 for all participants in pay status is approximately $30,000. The impact of lost COLA to you personally depends on your actual pension.

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

In re	Chapter 9
CITY OF DETROIT, MICHIGAN,	Case No. 13-53846
Debtor.	Hon. Steven W. Rhodes

NOTICE REGARDING PROPOSED CHANGES TO PENSIONS IN THE CITY'S PLAN OF ADJUSTMENT AND YOUR RIGHT TO VOTE ON THE PLAN

Introduction

This Notice gives (i) retirees or surviving beneficiaries who are currently receiving pension benefits from the City of Detroit Retirement Systems and (ii) active and former employees who have earned pension benefits from the City of Detroit based on your employment a short summary as to how the City's proposed plan of adjustment (the "**Plan**") and the restructuring described in the Plan will affect your future pension benefits. This information is being provided to you so that you can make an informed decision about voting on the City's Plan.

This Notice provides you with:

- background information about the process for approval of the Plan by the Bankruptcy Court, and
- details about how the proposed Plan will impact your benefits.

IF APPROVED BY THE BANKRUPTCY COURT, THE CITY'S PLAN OF ADJUSTMENT WILL REDUCE YOUR PENSION BENEFITS. YOU CAN VOTE FOR OR AGAINST THE PLAN, BUT YOU CANNOT AVOID A REDUCTION IN YOUR PENSION BENEFITS BY REFUSING TO VOTE ON THE PLAN.

YOUR VOTE MATTERS.

PLEASE READ THIS ENTIRE NOTICE CAREFULLY. DETAILS OF HOW TO OBTAIN ADDITIONAL INFORMATION ARE PROVIDED BELOW.

SPECIAL NOTICE REGARDING RELEASES. IF THE CITY'S PLAN (INCLUDING THE PROPOSED BENEFIT REDUCTIONS) IS APPROVED AND THE OUTSIDE FUNDING FOR PENSION BENEFITS DESCRIBED IN THIS NOTICE IS APPROVED, AND YOUR PENSION BENEFITS ARE REDUCED THROUGH THE IMPLEMENTATION OF THE CITY'S PLAN, YOU MAY LOSE ALL OF YOUR RIGHTS TO SUE THE CITY AND THE STATE TO TRY TO RECOVER THE FULL AMOUNT OF YOUR PENSION BENEFITS UNDER THE MICHIGAN CONSTITUTION OR OTHER LAWS.

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BACKGROUND REGARDING DETROIT'S PENSION OBLIGATIONS

The City sponsors and provides its employees with pension benefits through two separate pension funds – the General Retirement System ("**GRS**") and the Police and Fire Retirement System ("**PFRS**"). Generally, if you were a uniformed police or fire-fighter employee, you receive your pension payments through PFRS and, if you were a non-uniformed employee, you receive your pension payments through GRS. Generally, before the bankruptcy, the City was required to contribute cash into the GRS and PFRS so that these pension funds would have enough money to pay the pensions that you earned during your employment by the City.

At the time the City filed for bankruptcy, both GRS and PFRS were underfunded. "Underfunded" means that GRS and PFRS have enough assets to pay pensions in the short term, but they do not have enough assets to pay all pensions in full over the long term. The amount of the underfunding is a debt that the City owes to each pension fund (and those entitled to receive benefits from that fund). The underfunding debt creates a "claim" in the City's bankruptcy. The Plan proposes to restructure this debt through reductions in your pension benefits, contributions of money by outside funders to the Retirement Systems and the City's promise to fund the reduced benefit levels going forward.

If you are either (i) retired, (ii) disabled or (iii) a surviving beneficiary of a City employee, and you are currently receiving a pension, you have a "**Pension Claim**" in the bankruptcy in connection with this underfunding debt. As a holder of a Pension Claim, you have a right to vote on how the City proposes to reduce your pension benefits and the other terms of the Plan.

Similarly, **if you are an active employee of the City (or a former employee) who has earned the right to a pension upon your future retirement based on your years of service with the City**, you also have a "**Pension Claim**" in the bankruptcy. As a holder of a Pension Claim, you also have a right to vote on how the City proposes to reduce your pension benefits and the other terms of the Plan.

BACKGROUND REGARDING DETROIT'S PLAN FOR THE ADJUSTMENT OF ITS DEBTS

The Plan and Disclosure Statement

On May 5, 2014, the City of Detroit filed the Plan. The Plan is a legal document that contains the terms of the City's proposed restructuring. Among other things, the Plan proposes to reduce pension benefits and OPEB benefits. Along with the Plan, the City also filed a document called the "Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit." The Disclosure Statement provides more detailed information on various aspects of the proposed Plan and the City's bankruptcy case including, among other things:

- the circumstances leading up to the City filing for bankruptcy;
- key events during the bankruptcy case;
- a description of how the Plan will restructure the City's debts for different types of creditors, including retirees and active or former City employees, by reducing or changing the amounts it will pay and the timing and terms of repayment;
- how the City proposes to implement the Plan;
- the legal effects of approval of the Plan by the Bankruptcy Court;
- instructions regarding voting on the Plan; and
- risk factors associated with the Plan.

Classification of Pension Claims in the Plan

Under the Plan, pension-related claims against the City are divided into different classes. Claims related to PFRS pensions are in Class 10.

- **If you participate in PFRS, your Pension Claim is what the Plan calls a "PFRS Pension Claim." Your PFRS Pension Claim is included in Class 10 of the Plan.**

- The amount of all PFRS Pension Claims that has been estimated for purposes of voting on the Plan is $1,284,000,000. This amount is equal to the estimated amount of the "underfunding" for PFRS as of June 30, 2013. That is, it is equal to the difference between the market value of the assets in PFRS as of June 30, 2013 and the present value of the liabilities of PFRS as of June 30, 2013 (in other words, the total amount of all PFRS pension benefits accrued by all City employees, former employees, retirees and survivors). If you are the holder of a PFRS Pension Claim, the value of your PFRS Pension Claim is equal to your share of this $1,284,000,000 and is stated on the Ballot that you received with this Notice. The amount stated on your Ballot is the estimated amount of your PFRS Pension Claim **only for purposes of counting votes for the Plan**. **It is not a promise by the City to pay that amount under the Plan. It is also not an estimate of your future pension checks.**

- If you are an active or former employee who was not receiving a PFRS pension as of March 1, 2014, the actual value of your pension will not be calculated until you retire. Your claim and your pension are different things. For purposes of counting votes for the Plan, your Ballot contains a rough estimate of your portion of the total PFRS Pension Claim based on your age and years of service. **It is not a promise by the City to pay that amount under the Plan. It is also not an estimate of your future pension checks.**

If you also worked for other City departments (or you are a surviving beneficiary of someone who worked in another City department), you may also have a right to a pension from the General Retirement System of the City of Detroit (the "GRS"). If so, you will receive a separate Notice and Ballot for voting your GRS Pension Claim in Class 11 of the Plan.

If you are currently retired or are a surviving beneficiary, you also have a separate claim for retiree health or other post-employment benefits (an "OPEB Claim"). You will receive a separate Notice and Ballot for voting your OPEB Claim in Class 12 of the Plan.

The Solicitation Package and Voting

This Notice and the other documents are intended to provide you with information on how the terms of the Plan will affect your benefits in the future. The accompanying Ballot is intended to allow you to cast your vote to accept or reject the Plan.

Your vote for or against the Plan will be counted and reported to the Bankruptcy Court and included in (i) the total number of votes cast for or against the Plan in your class and (ii) the total the amount of claims voting either for or against the Plan. **Your vote matters. You cannot avoid a reduction in your pension benefits by refusing to vote.**

If you would like to receive a paper copy of the Plan and the Disclosure Statement, you may obtain one, free of charge, by:

- calling the City's toll-free restructuring hotline at (877) 298-6236;
- visiting the City's restructuring website at *www.kccllc.net/detroit*; or
- writing to the City's claims and noticing agent at the following address:

City of Detroit c/o Kurtzman Carson Consultants LLC
2335 Alaska Avenue
El Segundo, CA 90245

The package containing this Notice should also contain the following materials:

1. A cover letter describing: (a) the materials you received along with this Notice; (b) the contents of the enclosed CD-ROM and instructions with respect to its use; and (c) information about how to obtain, at no charge, paper copies of any materials provided on the CD-ROM.

2. A paper copy of the notice of the hearing before the Bankruptcy Court to consider whether to confirm – i.e., approve – the City's Plan (the **"Confirmation Hearing Notice"**).

3. A CD-ROM containing the Plan and Disclosure Statement and exhibits to them that have been filed as of the date of this mailing (all of which are also available at no charge via the internet at *http://www.kccllc.net/detroit*).

4. A letter from the City recommending that you vote to accept the Plan.

5. A letter from the Retired Detroit Police & Fire Fighters Association and, possibly, others.

6. A Ballot for your PFRS Pension Claim, with instructions on how to complete the Ballot, and a Ballot return envelope. Your Ballot for your PFRS Pension Claim has been customized to provide you with information about the Plan's impact on your future annual cost-of-living adjustments – sometimes called "escalators" in the collective bargaining agreements ("**COLAs**"), depending upon whether both pension classes (Class 10 and Class 11) accept the Plan *or* if one or more of them rejects the Plan.

Please read the instructions, and complete, sign and return the Ballot early enough so that it will be actually received by the Balloting Agent in California by no later than July 11, 2014. Note that it may take several days from the date on which you mail your Ballot for the Ballot to reach the Balloting Agent in California. Ballots that are faxed or emailed will not be accepted.

HOW THE PLAN TO ADJUST DETROIT'S DEBTS AFFECTS YOUR FUTURE PENSION BENEFITS

The Plan provides for two alternatives for your pension benefits. The Plan will not reduce your monthly pension payments, but it will reduce your annual "escalators" or COLAs either by 55% (Alternative A) or eliminate them entirely (Alternative B). Alternatives A and B are described in the chart on page 9 and in the following pages. There are two alternatives because the amount of the pension reductions depends upon whether you and others in Class 10 and those in Class 11 (those holding GRS Claims) vote to accept the Plan and the Outside Funding is received.

The Outside Funding

The Plan contemplates that $816 million in funding from outside sources as a settlement of certain issues affecting the City and its retirees will be contributed to GRS and PFRS over 20 years ***if and only if both Classes 10 and 11 vote to accept the Plan***. These outside sources are: (i) funders of the non-profit corporation that operates the Detroit Institute of Arts, (ii) 12 charitable foundations and (iii) the State of Michigan. Their collective contributions are called the **"Outside Funding."**

You will receive reduced COLAs if the Outside Funding is available. All COLAs will be eliminated if the Outside Funding is not available.

If one Class of pension claims votes to accept the Plan and the other Class of pension claims votes to reject the Plan, the Outside Funding for the pensions will not be available. If both Classes of pension claims vote to reject the Plan, this additional Outside Funding for the pensions will not be available.

IN OTHER WORDS, <u>BOTH CLASS 10 AND CLASS 11 MUST VOTE TO ACCEPT</u> THE PLAN IN ORDER FOR THE OUTSIDE FUNDING TO BE CONTRIBUTED TO FUND PENSIONS.

> ***For a Class to vote to accept the Plan, more than two-thirds in amount of claims and one-half in number of Class members who actually vote must vote "YES" to accept the Plan.***
>
> ***There are other conditions to the receipt of the Outside Funding that must also be met for the money to be contributed. Those are described in the Plan. Therefore, even if Classes 10 and 11 both vote to accept the Plan, there is a risk that the payments from the Outside Funding may not be made as promised. The Plan does not require the City to make up for any missed payments.***

NOTICE REGARDING EFFECT OF VOTING ON RELEASES

<u>If you vote to accept the Plan</u>: You may be giving up any right you may have to sue the State of Michigan, the City or other entities specifically protected by the Plan releases, to try to recover the full amount of your pension, only if the necessary conditions (the "<u>Initial Funding Conditions</u>") for the funding from the State and the other Outside Funding parties that can be satisfied before the Confirmation Hearing are satisfied or waived. These preconditions include adoption of relevant legislation and appropriations by the State and completion of necessary agreements and documents by the State and the other Outside Funding parties, among other things.

<u>If you vote to accept the Plan and the Initial Funding Conditions are not satisfied or waived</u>: Your vote will be treated as a vote to reject the Plan because, in this circumstance, the Outside Funding would not be received.

<u>If you vote to reject the Plan</u>: If you vote to reject the Plan, it will be less likely that the Outside Funding will be available because acceptance by Classes 10 and 11 is a condition for receipt of the Outside Funding. Nevertheless, if Classes 10 and 11 vote to accept the Plan so that the Outside Funding will be received despite your vote to reject the Plan, you will benefit from the Outside Funding that is received, but you will not have any right to sue the State of Michigan, State officials, the City or other entities specifically protected by the Plan releases to try

to recover the full amount of your pension. This is because the releases are also conditions of the Outside Funding.

A summary chart showing the difference in estimated adjustments to pension benefits if Outside Funding is, or is not, received for PFRS appears below.

<u>Alternative A</u>: Estimated Adjustments to Pension Benefits if Classes 10 and 11 Vote Yes on the Plan and Outside Funding is Received and the Court Approves the Plan[1]

• You will receive 100% of your current pension and 45% of your annual "escalators" or COLAs over your lifetime
  o No reduction in current and future monthly pension payments
  o Elimination of 55% of your annual "escalators" or COLA
• COLAs are approximately 18% of the total value of PFRS liabilities; 55% of COLAs equate to a reduction of about 9.9%
• The value of the COLA to you depends largely upon your age and the size of your current pension; your total reduction could be more or less
• The PFRS plan will be "frozen." The impact of this is to reduce liabilities by about $55 million – or roughly 7.5% of the active employee liabilities, or 1% of the total PFRS liabilities.

<u>Alternative B</u>: Estimated Adjustments to Pension Benefits if either Class 10 or Class 11 Votes No on the Plan and No Outside Funding is Received and the Court Approves the Plan

• You will receive 100% of your current pension but no COLAs over your lifetime
  o No reduction in current and future monthly pension payments
  o Elimination of 100% of COLAs
• COLAs are approximately 18% of the total value of PFRS liabilities; the value of the COLA to you depends largely upon your age and the size of

[1] Under the Plan, benefits may be reduced more than 55% of COLA for PFRS if one of the foundations or the DIA Corp. does not make its promised contribution. It cannot be predicted with any certainty at this time how much of a reduction may occur if such a funding default were to happen. Any such reduction, however, will not exceed the reductions outlined in Alternative B.

your current pension; your total reduction could be more or less

- The PFRS plan will be "frozen." The impact of this is to reduce liabilities by about $55 million – or roughly 7.5% of the active employee liabilities, or 1% of the total PFRS liabilities.

Please see the charts attached to your Ballot to help you understand how these reductions and elimination of COLAs ("escalators") will affect the typical PFRS pension.

Pension Litigation and How It Affects the Plan

PFRS, GRS, the Retiree Committee, several unions and several associations representing the City's retirees have appealed from the Bankruptcy Court's ruling that found the City to be eligible to file its bankruptcy case and also held that accrued pension benefits could be reduced. The appeals are pending before the United States Court of Appeals for the Sixth Circuit.

The Outside Funding of $816 million will not be available for PFRS or GRS if these appeals continue. The Outside Funding will only be available if these appeals are resolved, dismissed or withdrawn prior to approval of the Plan.

If the appeals continue and are successful and no further appeals or other legal actions are taken, then either the City's bankruptcy case may be dismissed (and no plan would be confirmed), or the appellate court may hold that, although the City may pursue a restructuring in this bankruptcy case, it cannot reduce or impair your pension (and the Plan could not be confirmed). In either case, the Outside Funding of $816 million would not be available for PFRS and GRS.

Even if the appellate court decides that the City cannot legally reduce your pension, the City's financial problems mean that it would still not have enough money to make the required pension contributions to PFRS or GRS. So you would still not be assured of receiving a full pension payment even if you had a legal right to a full pension payment.

If the appeals are unsuccessful and no further appeals or other legal actions are taken, then the Plan as written will be unaffected.

If the Plan is approved and the Outside Funding described in this Notice is approved, you will lose all of your rights to sue the City and the State to try to

recover the full amount of your pension benefits under the Michigan Constitution or other laws.

Your PFRS Adjusted Pension Amount (Class 10)

Your already-accrued pension benefit amount, as it will be adjusted/reduced by the Plan as shown in the chart above, is called your "PFRS Adjusted Pension Amount." Your monthly pension amount will not change under the Plan, but the annual "escalators" or COLAs that you were entitled to will either be reduced or eliminated.

If you are currently a retiree or a surviving beneficiary drawing a pension, you will continue to receive the same monthly pension amount if the Plan is approved, but your annual "escalators" (or COLAs) will change. Your Ballot enclosed with this Notice contains the two scenarios that will affect your COLAs under the Plan: (i) under Alternative A, your annual COLA will be reduced by 55%, but you will still receive 45% of your COLA if Classes 10 and 11 vote to accept the Plan (and the Outside Funding is received); and (ii) under Alternative B, your annual COLA will be eliminated if either Class 10 or Class 11 votes to reject the Plan (and the Outside Funding is not received).

The City cannot ensure collection of the Outside Funding, and a failure to collect the Outside Funding may cause a further reduction in your PFRS Adjusted Pension Amount.

If you are a former employee who has earned a pension but has not yet retired and begun to receive your pension, your starting monthly pension amount upon your future retirement will be your earned pension at the time of your termination, but your annual "escalators" (or COLAs) will be reduced or eliminated. Your Ballot enclosed with this Notice contains the two scenarios that will affect your COLAs under the Plan: (i) under Alternative A, your annual COLA will be reduced by 55%, but you will still receive 45% of your COLA if Classes 10 and 11 vote to accept the Plan (and the Outside Funding is received); and (ii) under Alternative B, your annual COLA will be eliminated if either Class 10 or Class 11 votes to reject the Plan (and the Outside Funding is not received).

If you are an active employee who is not currently collecting pension payments but you have earned a monthly pension based on employment with the City and you are currently vested in such monthly pension or you work enough years with the City before and after June 30, 2014 to become vested in such monthly pension, you will receive upon your future retirement a monthly

pension equal to the sum of (i) your PFRS Adjusted Pension Amount, which will be the same starting monthly pension amount you earned as of June 30, 2014 under the current pension program, but your annual COLAs will be reduced or eliminated, plus (ii) your "New Accrued Pension." Your "New Accrued Pension" is the part of your pension that will be earned under a new "hybrid" pension plan based upon service from and after July 1, 2014. This is called the "New PFRS Active Pension Plan" in the Plan. Your Ballot enclosed with this Notice contains the two scenarios that will affect your COLAs for your accrued benefits as of June 20, 2014 under the Plan: (i) under Alternative A, your annual COLA will be reduced by 55%, but you will still receive 45% of your COLA if Classes 10 and 11 vote to accept the Plan (and the Outside Funding is received); and (ii) under Alternative B, your annual COLA will be eliminated if either Class 10 or Class 11 votes to reject the Plan (and the Outside Funding is not received). Neither of these estimates includes any amount attributable to any employment with the City from and after July 1, 2014, and they do not include any pension amount you will earn under the New PFRS Active Pension Plan after July 1, 2014.

PFRS Pension Reductions & the PFRS Adjusted Pension Amount

1. **If you are a current retiree or a surviving beneficiary who currently receives a monthly pension,** your monthly pension amount will not change under the Plan. However, your annual "escalators" or COLAs will be either be reduced by 55% or eliminated completely, depending on whether all of the Outside Funding is available. Over time, the loss of COLAs will affect younger retirees (or active employees with a vested pension benefit) more than it will affect older retirees because younger people generally can expect to receive more years of annual COLAs.

Example 1: John Smith is age 70. He currently receives a $30,000 pension, plus he is entitled to an annual 2.25% increase (COLA or "escalator") in his current pension each July 1.

Alternative A: If Classes 10 and 11 accept the Plan, John Smith will continue to receive $30,000 per year, and it will be increased annually by 45% of the COLA ("escalator") formula, or 1.0125%.

Alternative B: If Classes 10 and 11 do not accept the Plan, John Smith will receive $30,000 per year, and it will not be increased annually. He will receive $30,000 annually for life.

2. **If you are a former employee who earned a vested pension before separation from employment with the City**, the starting monthly pension amount that you will be paid upon your future retirement will not change. However, your future annual "escalators" or COLAs will either be reduced 55% or eliminated completely depending on whether all of the Outside Funding is available. Over time, the loss of COLAs will affect younger terminated employees with vested benefits more than it will affect older retirees because younger people can generally expect to receive more years of annual COLAs.

> Example 2: Jane Jones is age 50. She terminated employment 10 years ago after serving 10 years as a firefighter. She has a right to receive a $30,000 pension at age 62, plus an annual 2.25% increase (COLA or "escalator") of her current annual pension each July 1.
>
> **Alternative A:** If Classes 10 and 11 accept the Plan, Jones will receive at retirement $30,000 per year, and it will be increased annually by 45% of the COLA ("escalator") formula, or 1.0125%.
>
> **Alternative B:** If Classes 10 and 11 do not accept the Plan, Jane Jones will receive $30,000 per year, and it will not be increased annually. She will receive $30,000 annually for life.

3. **If you are an active employee who has earned a monthly pension to be paid upon your future retirement**, you will continue to grow your pension under the current pension formula through June 30, 2014. At that point, your pension benefits will be frozen (meaning that you will not earn any more benefits under the current pension plan formula), and you will not be able to earn any additional pension amounts under the current PFRS pension formula. If the Plan is approved, your frozen monthly pension amount will be the same as your current pension earned as of June 30, 2014, but your future annual "escalators" or COLAs will either be reduced by 55% or eliminated entirely, depending on whether all of the Outside Funding is available. If you work long enough (both before and after June 30, 2014) to become vested in your reduced frozen pension benefit, you will be able to receive your reduced frozen pension payment upon attaining a sufficient number of years of service as provided for under the current pension formula. As noted above, your reduced pension amount is called your "PFRS Adjusted Pension Amount." Over time, the loss of COLAs will affect younger retirees (or active employees with vested pension benefits) more than it will affect older retirees because younger people generally can expect to receive more years of annual COLAs.

4. **If you are an active employee and you continue to work for the City after July 1, 2014**, you will also earn a new monthly pension under the New PFRS Active Pension Plan that will be paid at retirement along with your PFRS Adjusted Pension Amount. The monthly pension amount that you earn after July 1, 2014 is called your "**New Accrued Pension**." The pension formula for years of service after July 1, 2014 will be less generous than the formula that currently applies to your pension. For purposes of determining whether you are vested in your New Accrued Pension, your service with the City before and after July 1, 2014 will be taken into account. If the terms of the New PFRS Active Pension Plan as it relates to your bargaining group so provide, you will be entitled to elect into a deferred retirement option plan ("**DROP**") for your frozen benefit and for your New Accrued Pension. If you are not currently participating in the DROP program and you are otherwise eligible , your participation in DROP will be limited to 5 years. If you previously irrevocably elected into a DROP, you will continue to participate in the DROP in accordance with the terms of the bargaining agreement between the City and your union.

> <u>Example 3</u>: John Johnson is age 42. As of June 30, 2014, he will have earned – based on his then salary and years of service – a $30,000 annual pension. He also will have earned a right to a 2.25% annual increase (COLA or "escalator") in his annual pension each year following retirement. If Classes 10 and 11 approve the Plan, Johnson's $30,000 frozen accrued pension will be increased by 45% of the 2.25% COLA ("escalator") formula (*i.e.*, it will be increased annually by 1.0125%). Johnson works for another 10 years and retires on July 1, 2024. Under the PFRS New Accrued Pension, he earns a $7,500 annual pension for life.
>
> **<u>Alternative A</u>:** At retirement, Johnson will receive the following: (i) an annual $30,000 pension under the old formula with a 1.0125% COLA escalator, plus (ii) an annual $7,500 pension under the PFRS New Accrued Pension, for a total annual pension for life of $37,500 with the reduced COLA escalator payable on his annual pension under the old formula.
>
> **<u>Alternative B</u>:** If Classes 10 and 11 do <u>not</u> approve the Plan, John Johnson will receive at retirement $37,500 per year ($30,000 + $7,500), and it will not be increased annually. He will receive $37,500 annually for life.

PFRS Pension Funding

5. **In the event that all of the Outside Funding is made available (a portion of which will be made available to PFRS) and that Classes 10 and 11 both have accepted the Plan,** during the period through June 30, 2023, contributions in the amount of approximately $260 million will be made to PFRS. Other than the Income Stabilization funds discussed below, these are the only amounts that are contemplated to be contributed to PFRS during this period. These contributions will be paid only from the Outside Funding. During this period, the City will not pay any money for PFRS pensions. If the Outside Funding is not paid as required by the Plan, it is not contemplated that the City would make up these amounts.

6. Beginning on and after July 1, 2023, approximately $68 million in Outside Funding will be available for PFRS. The City will be responsible for contributing all other amounts annually determined by PFRS to be necessary to fund the PFRS pension trust and to enable PFRS to pay your PFRS Adjusted Pension Amount (and your New Accrued Pension, if you are an active employee). The City will make the necessary contributions from its future tax revenues and available cash.

PFRS Pension Restoration

7. The pension benefits reductions that are discussed in Paragraphs 1, 2 and 3 above may be restored, in whole or in part, if the funding level[2] of PFRS significantly improves and the PFRS trustees have complied with certain requirements described in the State Contribution Agreement. This restoration may occur if (a) the investment returns on PFRS assets are greater than certain specified thresholds or (b) other actuarially-determined factors contribute to improve the funding level of PFRS. In other words, if PFRS pension funding levels improve, your PFRS Adjusted Pension Amount may be increased, and some or all of your future COLA payments could be restored.

This is a summary of how restoration of your COLA may happen. If the investments do well and the funding level of the PFRS exceeds the target, money will be set aside in a "restoration reserve account" to pay COLA restoration

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[2] "Funding level" means the market value of PFRS' assets as a percentage of PFRS' liabilities to all participants for PFRS Adjusted Pension Amounts projected forward to 2023 and later. For example, if (a) the market value of PFRS' assets were $100 and (b) the amount of its liabilities to all participants for PFRS Adjusted Pension Amounts were also $100, the "funding level" for PFRS would be 100%. If, however, (a) the market value of PFRS' assets were $80 and (b) the amount of its liabilities were $100, the "funding level" for PFRS would be 80%.

payments. Investment returns will increase (up to a cap) or decrease the assets in the restoration reserve account. When the restoration reserve account can fully fund (for people's lifetimes) at least 10% of future COLA payments, restoration payments will begin the next year. If more money is available, restoration payments will increase. If the funding level of the PFRS drops, money in the restoration reserve account may no longer be sufficient to provide increased COLA benefits and COLA restoration payments may be suspended. A summary of the relevant funding level targets is in the table below.

The year in which you begin to receive COLA restoration payments depends on when you began receiving your pension and when restoration begins. The order is: (1) Pensions that began before June 30, 2014 will have COLA restored first (up to 66%). (2) Pensions that began after June 30, 2014 but before the year when restoration begins will have COLA restored second (up to 66%). (3) Pensions for all PFRS participants (including those whose COLAs were restored to 66%) will have their remaining COLA restored last.

Summary of PFRS Funding Level Targets				
	To set aside money for restoration, the funding level has to be at least this amount:	Investment return of restoration reserve account assets will be capped at:	No money set aside when the funding level falls below this amount:	COLA restoration payments may be suspended when funding level is:
Until 6/30/23	78%	6.75%	76%	Below 75%
Between 7/1/23 and 6/30/33	[88]%	Assumed PFRS investment return (currently 6.75%, but it could change)	[86]%	Below [85]%
Between 7/1/33 and 6/30/43	[95]%		[93]%	Below [92]%
If funding level is greater than [78]% on 6/30/23, existing COLA restoration payments can no longer be suspended unless there are insufficient assets in the restoration reserve account.				

Finally, if the City completes a transaction with a third party involving the majority of assets in the Detroit Water and Sewage Department within seven years

of the Plan's effective date, 50% of the funds that would be received by the City from that transaction may be used to help fund pension restoration, but the GRS will have a priority on receipt of that 50% share.

Restoration of COLA benefits, particularly until 2023, cannot be assured. After 2023, restoration of certain benefits may be possible, but it cannot be predicted at this time whether or when any restoration will occur.

> Example 4: Under Alternative A, John Smith, age 70, is receiving a current $30,000 annual pension and 45% of his COLA escalator (which amounts to a 1.0125% escalator). In 2018, PFRS concludes that the restoration reserve account has sufficient assets to fully fund an increase in COLA for Smith to 66% of his COLA escalator, and that the other conditions governing pension restoration are satisfied. On July 1, 2019, Smith will receive his $30,000 pension as it was increased by the 1.0125% COLA until June 30, 2018 and with a 1.485% increase.

Fund for Income Stabilization

The purpose of this program is twofold: (1) to make sure that pensioners who have a low household income today can count on a stable income; and (2) to help protect Eligible Pensioners (defined below) from falling into poverty as a result of inflation. Individuals will have to apply for the program in the first year and provide household income documentation to participate in the program.

PFRS will be amended to provide a supplemental pension income stabilization benefit ("**Income Stabilization Benefit**") to each Eligible Pensioner. There are two parts to this benefit.

The Income Stabilization Benefit will be calculated in the first year and will not increase. It is equal to the lesser of either (i) the amount needed to restore 100% of an Eligible Pensioner's reduced pension benefit to the amount of the pension benefit that the Eligible Pensioner received from PFRS in 2013; or (ii) the amount needed to bring the total annual 2013 household income of the Eligible Pensioner up to 130% of the Federal Poverty Level in 2013.

In addition, to the extent an Eligible Pensioner's Estimated Adjusted Annual Household Income (as defined below) in any calendar year after the first year of the program is less than 105% of the Federal Poverty Level in that year, the Eligible Pensioner will receive an additional benefit – the "**Income Stabilization Benefit Plus**." The Income Stabilization Benefit Plus for a calendar year will be equal to the lesser of either (a) the amount needed to restore 100% of the Eligible Pensioner's pension benefit, including escalators or cost-of-living adjustments; or (b) the amount needed to bring the Eligible Pensioner's Estimated Adjusted Annual Household Income in that calendar year up to 105% of the Federal Poverty Level in that year.

An Eligible Pensioner's "**Estimated Adjusted Annual Household Income**" for any year will be the sum of (a) the Eligible Pensioner's 2013 total household income (per his (or in the case of minor children, their legal guardian's) 2013 income tax return or equivalent documentation), less the pension benefit paid to the Eligible Pensioner in 2013, as adjusted for inflation or Social Security COLA increases; (b) the reduced pension benefit that PFRS will pay the Eligible Pensioner for that year; (c) any PFRS pension restoration payment to the Eligible Pensioner due to an improved PFRS funding level; and (d) the Eligible Pensioner's Income Stabilization Benefit.

Notwithstanding the foregoing, Income Stabilization Payments under both GRS and PFRS will not exceed $20 million in the aggregate.

The PFRS Income Stabilization Benefits and Income Stabilization Benefit Plus will be paid from the Income Stabilization Fund of PFRS. The Income Stabilization Fund of PFRS will be funded with certain proceeds of a settlement with certain bond creditors, up to an aggregate amount of $20 million to be divided between the Income Stabilization Fund of GRS and the Income Stabilization Fund of PFRS.

Under the Plan, PFRS will establish an "**Investment Committee**" for the purpose of making recommendations to the PFRS board of trustees with respect to certain matters, and for purposes of making some determinations. The Investment Committee will consist of five independent members and two or more non-independent members, which non-independent members may include employees of the City or members or retirees of PFRS, provided that at all times during the 20-year period following disbursement of the State Contribution, the independent members shall have at least 70% of the voting power. Each independent Investment Committee member shall possess, by reason of training or experience or both, a minimum level of expertise in managing or advising pension systems, all as agreed to by the City, the State and PFRS, after consultation with the Foundations.

In the event that, in 2022 (provided that the State has not issued a certificate of default with respect to PFRS at any time prior to 2022), it is the opinion of at least 75% of the independent members of the Investment Committee of PFRS that the Income Stabilization Fund of PFRS has more assets than it needs to provide Income Stabilization Benefits and Income Stabilization Benefits Plus, the PFRS Investment Committee may recommend to the board of trustees that the excess assets, in an amount not to exceed $35 million, be used to fund the Adjusted Pension Amounts payable by PFRS. In the event that any funds remain in the Income Stabilization Fund of PFRS on the date upon which no Eligible Pensioners under PFRS remain, such funds shall be used to fund the Adjusted Pension Amounts payable by PFRS.

"Eligible Pensioners" are those retirees, surviving spouses, or surviving minors who hold a Pension Claim and who are eligible to receive Income Stabilization Benefits because such Holder (a) is, as of the effective date of the Plan, at least 60 years of age or a minor child receiving survivor benefits from PFRS and (b) has an

aggregate annual household income equal to or less than 140% of the Federal Poverty Level in 2013 (per their (or in the case of minor children, their legal guardian's) 2013 income tax returns or equivalent documentation). No new persons will be eligible to receive Income Stabilization Benefits or Income Stabilization Benefits Plus at any time in the future, and any minor child receiving survivor benefits shall cease to be an Eligible Pensioner after he or she turns 18 years of age.

PLAN RELEASES

If the Plan is confirmed, it will be binding on you. You will have no right to demand that the City pay you the full original amounts it owed for your pension. You will only have the right to your reduced pension benefits under the Plan.

Comprehensive State Release

In addition to protection from further claims against the City that is a standard part of any plan of adjustment, the Plan also proposes to grant to the State of Michigan, its officials and certain other related parties a comprehensive release of any obligation they might have with respect to your pension claim and other claims against the City. This is called the **"Comprehensive State Release."** The Bankruptcy Court will have to approve this Comprehensive State Release, and it may not do so. If the Comprehensive State Release is approved, **you will not be allowed to sue the State, the City or any State officials to restore pension benefits or argue that the City did not have the power to reduce pensions, even if you vote to reject the Plan. Specifically, this release would release all claims and liabilities arising from or related to the City, the chapter 9 case (including the authorization given to file the chapter 9 case), Plan and exhibits thereto, the Disclosure Statement, PA 436 and its predecessor or replacement statutes, and Article IX, § 24 of the Michigan Constitution. If you are an active employee, the Comprehensive State Release does not release or discharge rights you have to your New Accrued Pension.**

If the Bankruptcy Court confirms the Plan but does not approve the Comprehensive State Release (or if the other conditions to Outside Funding are not met), the State does not have to contribute its $350 million State Contribution to the Pension Funds. If the State's money is not contributed, then none of the other sources of Outside Funding will make their payments, either. In that case, none of the $816 million in contributions will be made to the pension plans, Alternative B will take effect, and your COLAs will be eliminated.

Release by Claim Holders Accepting the Plan

The Plan also provides for an "**Accepting Holders Release.**" The Accepting Holders Release would be granted by individual creditors by their accepting the Plan. This means that if you individually vote to accept the Plan, you will be personally releasing the City and its related entities, the State and its related entities, the Retiree Committee, the members of the Retiree Committee, the Retiree Committee professionals, the foundations and other organizations who are providing Outside Funding and their related entities **except for** such parties' gross negligence or willful misconduct, but only if the Initial Funding Conditions (which include adoption of relevant legislation and appropriations by the State and completion of necessary agreements and documents by the State and the other Outside Funding parties, among other things) that can be satisfied before the Confirmation Hearing are satisfied or waived.

In other words, if you vote to accept the Plan, you may not be allowed to sue the State, the City or any State individuals or entities to restore pension benefits or argue that the City did not have the power to reduce pensions.

However, if Classes 10 and 11 vote to accept the Plan, **but the Initial Funding Conditions are not satisfied or waived before the Confirmation Hearing, then your vote to accept the Plan will be treated as a vote to reject the Plan, and the voluntary Accepting Holders Release will not apply to you.**

For the avoidance of doubt, the Plan (including the Comprehensive State Release and the Accepting Holders Release) does not release, waive or discharge obligations of the City that are established in the Plan or that arise from and after the effective date of the Plan with respect to (i) pensions as modified by the Plan or (ii) labor-related obligations. Such post-effective date obligations shall be enforceable against the City or its representatives by active or retired employees and/or their respective collective bargaining representatives to the extent permitted by applicable non-bankruptcy law and/or the Plan.

EMERGENCY MANAGER
CITY OF DETROIT

May 5, 2014

To the Holders of Pension Claims and/or OPEB Claims in Classes 10, 11 and 12 under the *Fourth Amended Plan for the Adjustment of Debts of the City of Detroit*:

As a holder of a claim against the City of Detroit (the "City") respecting pension benefits and/or retiree healthcare benefits, you have an opportunity to vote on the City's plan to adjust its pension and retiree healthcare obligations. The City is soliciting your acceptance of the *Fourth Amended Plan for the Adjustment of Debts of the City of Detroit (May 5, 2014)* (as it may be amended, modified or supplemented, the "Plan"). Accordingly, please find enclosed the following materials:

(a) a plain language summary (the "Plain Language Summary") of information about your pension and/or retiree healthcare benefits and how your pension and/or retiree healthcare benefits will be affected by the Plan. This Plain Language Summary is provided to assist you with casting your vote on whether to accept the Plan;

(b) a notice that, among other things, contains information regarding the hearing to consider confirmation of the Plan, to be held before the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court");

(c) a CD-ROM containing:

(1) the Plan itself and all exhibits thereto that have been filed with the Bankruptcy Court to date; and

(2) the related *Fourth Amended Disclosure Statement with Respect to Fourth Amended Plan for the Adjustment of Debts of the City of Detroit* (as it may be amended, modified or supplemented, the "Disclosure Statement"), which was approved by the Bankruptcy Court pursuant to an order dated May 5, 2014 and all exhibits thereto that have been filed with the Bankruptcy Court to date;

(d) a ballot for voting on the Plan and a ballot return envelope;

(e) a copy of certain rules that govern how your vote on the Plan will be tabulated, which rules were approved by the Court by order entered on May 5, 2014 (the "Supplemental Solicitation Procedures Order"); and

(f) letters from some or all of the following parties, and possibly from other parties: the Police and Fire Retirement System, the General Retirement System and the Retired Detroit Police and Fire Fighters Association.

THE CITY BELIEVES THAT THE PLAN IS IN THE BEST INTERESTS OF CREDITORS AND PROVIDES THE BEST POSSIBLE RECOVERY FOR PENSION AND RETIREE HEALTH CLAIMANTS UNDER THE CIRCUMSTANCES. AS SUCH, THE CITY ENCOURAGES ALL CREDITORS, INCLUDING PENSION AND RETIREE HEALTH CLAIMANTS, **TO VOTE IN FAVOR OF THE PLAN** BY RETURNING BALLOT(S) IN ACCORDANCE WITH THE BALLOT INSTRUCTIONS.

For further information concerning the Plan and your rights, you are encouraged to carefully read the Disclosure Statement, the Plan, the Plain Language Summary and all other materials included with this letter. You also should read the instructions attached to the enclosed ballot(s) for information regarding the proper completion and submission of the ballot(s).

If you have any questions on how to properly complete the ballot(s), please contact Kurtzman Carson Consultants LLC (the "Balloting Agent") at (877) 298-6236 or via email at detroitinfo@kccllc.com. Please note, however, that the Balloting Agent cannot provide you with legal advice. In addition, copies of the Disclosure Statement, the Plan and all other relevant documents are available at no charge via the internet at http://www.kccllc.net/detroit. Copies of the Disclosure Statement (including any exhibits thereto that have been filed with the Bankruptcy Court) and the Plan (including any exhibits thereto that have been filed with the Bankruptcy Court) are also available upon a request made to the Balloting Agent via telephone at (877) 298-6236, via email at detroitinfo@kccllc.com or via mail at Detroit Ballot Processing c/o Kurtzman Carson Consultants LLC, 2335 Alaska Avenue, El Segundo, CA 90245.

PLEASE NOTE THAT, IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT(S) MUST BE PROPERLY COMPLETED, EXECUTED AND RETURNED IN ACCORDANCE WITH THE BALLOT INSTRUCTIONS PROVIDED SO THAT THE BALLOTING AGENT ACTUALLY RECEIVES YOUR BALLOT BY **5:00 P.M. EASTERN TIME ON JULY 11, 2014**. WE URGE YOU TO READ THE BALLOT INSTRUCTIONS CAREFULLY BEFORE VOTING.

Sincerely,

Kevyn D. Orr
Emergency Manager
City of Detroit

Enclosures

EMERGENCY MANAGER
CITY OF DETROIT

May 5, 2014

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Sincerely,

Kevyn D. Orr
Emergency Manager
City of Detroit

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